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TESTIMONY OF JOHN A. PAPPAS

on behalf of

THE POKER PLAYERS ALLIANCE

Michigan State Senate

Committee on Regulatory Reform

March 8, 2017

Chairman Rocca and distinguished members of the committee, thank you for holding this hearing and inviting me to testify. I have the great honor of serving as Executive Director of the Poker Players Alliance (PPA), an organization of 1.2 million American poker enthusiasts. In the state of Michigan, we boast nearly 20,000 Poker Players Alliance activists. These individuals and taxpayers, along with countless more state residents, enjoy playing poker in their homes, in charitable games, at state-licensed commercial casinos and at tribal casinos. But we currently cannot play this great game of skill in a legal and regulated market on the internet in Michigan. Starting with this committee hearing, I am hopeful that this will change. I am pleased to serve as a resource to help you better understand how internet poker and other forms of internet gaming are already being regulated effectively in the United States and throughout the world, and why regulation is the best way to protect consumers as well as maximize economic benefits for the state and the existing gaming industry.

For more than a decade the PPA has been at the forefront of advocating for sensible public policy that authorizes and regulates internet gaming. We know a good bill when we see it and that is why I would like to thank Senator Mike Kowall for his leadership on this issue and for introducing S.B. 203 that establishes strong consumer protections for adults in Michigan who enjoy internet gaming, and it would provide the state with a new revenue stream *without* raising taxes. Additionally, I would like to thank Senators Hertel, Knollenberg, Johnson, Jones and Warren for their co-sponsorship of this common-sense measure, and I urge every member of this committee to support S.B. 203.

Protect Consumers

There is no policy or political justification for delaying regulation of iGaming in Michigan. Each and every day that the state goes without regulation is another day that consumers are left unprotected and revenue is left on the table. Doing nothing is simply not an option; Michigan consumers and taxpayers should not have to wait for common sense protections.

Let me be clear. Today, yesterday and tomorrow, thousands of people in Michigan play online games for real dollars; albeit they do so on unlicensed sites with zero consumer protections. This void in consumer protection is all too real for Michigan residents who played on Lock Poker, a site based in Curacao, which abruptly shut down in April 2015, taking millions in player deposits. And, just a couple months ago, another offshore and unregulated website, this one called Full Flush Poker, shut down. And once again the players were left holding an empty bag. Sadly, because of the lack of regulatory oversight, there is nothing the affected customers in Michigan can do to get their money back or hold any of these websites accountable.

If you don't think people in your state are playing online, I encourage you to type this search, "Can I gamble online in Michigan" into Google and see the results. You will be directed to numerous websites that will claim to offer "legal" and "safe" online gaming for people living in Michigan. State regulation of iGaming changes this dynamic and puts Michigan in control of internet gaming by turning it into a state-based industry that is safe for consumers and accountable to regulators.

Regulated internet gaming is not a theory; it is reality. Today, in the U.S. and in regulated markets throughout the world, it is required that internet gaming companies consent to audits, implementation of anti-money laundering compliance programs and multi-step identity verification processes, bot detection, and other regulatory measures. Regulations require that these operators employ “best of breed” technologies that prohibit minors and problem gamblers, ensure that the games are fair, and block players in forbidden jurisdictions. Additionally, regulated operators are accountable to the players, regulators, and law enforcement, and they are continually reviewed to ensure they are meeting (and exceeding) the prescribed technical safeguards.

New Jersey has been a fine example of how regulation works for both the consumer and the state. iGaming regulation in New Jersey has been a huge success; it has been nearly flawless. Breaches in geolocation are nearly non-existent, and in the few instances when they have occurred, the regulatory system worked just as it should. The breach was quickly identified and the operator immediately addressed it. Underage access is not an issue, and those with excessive gambling habits have been excluded or controlled. Regulators have also been vigilant and successful in rooting out fraud or collusion.

But don’t just take my word for it. David Rebuck, the Director for the Division of Gaming Enforcement (DGE) for the state of New Jersey, the regulator that oversees internet gaming in the state, released a report card entitled “New Jersey Internet Gaming One Year Anniversary—Achievements to Date and Goals for the Future.”¹ In the report, Rebuck concludes, “From a

¹ “New Jersey Internet Gaming One Year Anniversary – Achievements to Date and Goals for the Future” New Jersey Division of Gaming Enforcement, Director David Rebuck, 2015

regulatory standpoint, our system is working. There have been no major infractions or meltdowns or any systematic regulatory failures that would make anyone doubt the integrity of operations. The issues that have arisen have been dealt with appropriately just like in the brick-and-mortar casinos.” This should leave little doubt in lawmakers’ minds that internet gaming can be properly regulated and controlled in Michigan.

Economic Competitiveness

Regulation of iGaming is an opportunity for the state’s existing, and tightly regulated, gaming industry to add a new distribution channel. This means that known, trusted and already regulated gaming companies will be providing this entertainment. This is exactly what your constituents want and deserve.

In order to stay competitive, the state’s existing gaming industry must embrace internet opportunities. More and more, Americans are turning to the internet for nearly all forms of recreation and activity. For example, we can bank online, we can buy a car online and we can even date online. Moving a poker game from the kitchen table to the computer table is just another part of the way the internet has transformed our lives. Extending oversight into internet gaming is simply a reflection of our modern-day society. Michigan can choose to ignore the internet, or it can embrace it for the benefit of its citizens and its economy. We should remember that authorized internet gaming is not new to this state. For many years, Michigan horse bettors have been able to wager through the internet. The state has also – successfully and safely – begun offering lottery products for purchase through the internet.

Every day without internet gaming regulation is another day Michigan doesn't realize its economic benefit. As a player organization, our primary focus is on consumer protection and maximizing the player experience. With that said, the by-product of good public policy is a significant source of revenue, *without raising taxes*. Just look at New Jersey, where the state budget saw a windfall of 35 million in tax revenue directly from iGaming in 2016.

I believe Michigan is equipped to do even better. S.B. 203 will result in tens of millions in new annual revenue, *without raising taxes*. Given the serious and immediate demands on the state budget the lawmakers should not turn its back on this revenue, and the taxpayers. Supporting internet gaming as a new revenue stream is a common-sense decision, rooted in sound public policy.

Status Quo is Not an Option

Of course, there are those who will advocate that you do nothing and will insist that the current prohibition works. This is a foolhardy proposition. The status quo is not acceptable and doing nothing would only serve to harm the vulnerable populations that regulation properly protects. As a player organization, the Poker Players Alliance takes consumer protections very seriously. I would argue that states like Nevada, New Jersey and Delaware have created a far more reasonable and effective approach to consumer protections than those who would simply stick their heads in the sand.

I would like to take a moment to address some of the concerns that have been raised about internet gaming, its impact on the land-based industry and society as whole. I am fortunate to be

able to provide the committee with facts, not rhetoric, on how a combination of regulation and technology can and does meet these perceived challenges.

Cannibalization Myth

While some may fear that the advent of internet gaming would destroy or “cannibalize” brick-and-mortar offerings, the actual experience shows the opposite. In January, it was reported that Atlantic City had its first gambling revenue increase in 10 years, with the credit going to the success of regulated internet gaming.² In 2016, revenue from internet gaming grew by more than 32 percent! And the trend continues in 2017. Once again, Atlantic City casinos’ revenues are up. In the month of January, an impressive showing by the industry’s online gaming operations (up 28 percent year-over-year) helped to again boost overall casino revenue by nearly 8 percent.³

New Jersey casino companies could see this coming and for years have noted the benefits to having both brick and mortar and online offerings. According to the president and CEO of Boyd Gaming, “about 85 percent of our online players have not rated play at the Borgata in the last two years, showing there is little overlap with our land-based business.”⁴ Further, an executive with Caesars Entertainment recently testified that 91 percent of their online players in New Jersey are new customers and because of their online offerings they have seen increased play and visitation to their land-based properties.⁵

² “Atlantic City casinos post 1st revenue hike in 10 years”, *Associated Press*, January 12, 2017

³ “Good start to 2017 for Atlantic City casinos,” *Associated Press*, February 14, 2017

⁴ Kevin Smith, President & CEO, Boyd Gaming, *Press Release: Borgata Online Gaming Revenue Grows 14% in January*, February 12, 2014

⁵ David Satz, Senior VP Government Relations and Development, Caesars Entertainment Corp, *Testimony before the Pennsylvania House Democratic Policy Committee*, May 1, 2014

Moreover, a recent study⁶ confirms these findings and suggests that states that draw revenue from casino gambling should regulate online gambling as a complementary offering to their land-based games. The study explains that there is little overlap between online and offline player demographics, but those online gamblers represent a valuable subset of potential brick-and-mortar casino players which will create a complementary impact.

Given all of the evidence, it is clear that moving forward with online poker and online gaming in Michigan will not harm existing casinos' offerings. In fact, I believe that online poker and casino games will help drive customers from the internet platform to the brick-and-mortar settings, benefiting both the consumer and the operators.

Underage Access

Restricting underage access to internet gaming websites is something that all regulated operators address. The U.S. states that currently regulate internet gaming and regulated markets in Europe require extremely high standards of identity verification. Gaming site operators are required to undertake age verification before accounts are opened and bets settled. Therefore, anyone placing a bet on a website must prove that they are over the age of 21 in the U.S. and 18 in Europe. These requirements are a condition of operators' licenses issued by their various regulators, and regulators regularly test the efficacy of operators' age verification mechanisms. Failure to undertake rigorous age verification could result in the loss of the license and closure of the business.

⁶ *Consumer spending in the gaming industry: evidence of complementary demand in casino and online venues*, Philander, Abarbanel and Repetti, June 2, 2015

All online betting companies require customers to open an account to make a bet. Let me be clear: to open an account for real-money play, a player does not have to merely prove that he or she is an adult; the would-be player has to prove that he or she is a specific adult whose identity can be verified through existing third-party databases, such as credit reporting agencies. Identity verification and know-your-customer requirements in the regulated online gaming space are as robust as those in the online banking space. The suggestion by some that you can open an account as “John Smith” just because you have John Smith’s credit card information is simply wrong. In all likelihood, you will need to know, for example, the date and amount of John Smith’s last mortgage payment and other similarly granular information. Age verification is an important element of identity verification because, in a regulated environment, failure to do so will result in a revoked license.

It is notable that in the three states that offer regulated online poker and casino games, there has not been a single reported incident of underage access.

The age verification technologies available today, coupled with hard evidence that shows that underage access to online gaming sites does not even register, should give this committee supreme confidence that Michigan youth will not be playing on regulated online gaming sites.

Gambling Addiction

Another important matter is ensuring we are appropriately addressing problem gambling. First, it is important to point out that extensive research conducted in recent years – including a key report on American online gamblers last year from the University at Buffalo Research Institute

on Addictions – proves that online gaming does not increase the social risks and damage of problem gaming.⁷

Moreover, comprehensive research on the issue concludes that online gaming operators have more effective and sophisticated tools to prevent and combat problem gaming compared to the measures that are available in brick-and-mortar casinos. Such measures have been adopted in jurisdictions around the world that specifically regulate online gaming and have proved themselves to be highly efficient.

Here are some key findings that clearly demonstrate that there is no linkage between online gaming and an increase in gambling addiction:

- A British Gambling Prevalence Survey found that addiction rates for online gambling in the UK were lower than for some types of off-line games.⁸
- Researchers at Harvard Medical School's Division on Addiction Studies have summarized the evidence of the UK study as follows: "The case of Internet gambling provides little evidence that exposure is the primary driving force behind the prevalence and intensity of gambling."⁹
- According to the University of Buffalo Research Institution on Addictions study, despite a seven-fold increase in the numbers of Americans reporting gambling on the Internet (from 0.3 percent to 2.1 percent) between 1999 and 2013, the prevalence rate for problem gambling in the United States has not changed.¹⁰

Most regulated online gaming markets have required their licensees to ensure that measures are in place to prevent and combat issues associated with problem gaming. These measures have

⁷ "Expansion of gambling does not lead to more problem gamblers" University at Buffalo Research Institute on Addictions, 2014

⁸ Addiction rates among past year gamblers. *British Gambling Prevalence Survey 2007*, National Centre for Social Research, Sept 2007.

⁹ Howard Shaffer and Ryan Martin, *Disordered Gambling: Etiology, Trajectory, and Clinical Considerations*, *Annual Review of Clinical Psychology* 2011. 7:483–510

¹⁰ *Gambling and Problem Gambling in the United States: Changes Between 1999 and 2013*, Journal of Gambling Studies, 2014.

proven to be more effective than the measures available in the offline gaming market. Such measures include:

- Providing defined and clear deposit limits which are either set by the regulators or by the players themselves (for a certain period of time, for a certain number of games etc.). For example, if a player sets a limit of \$100 per month for himself/herself, regulations can ensure that no operator lets that player deposit any more than that amount in any month.
- Allowing easy and straightforward self-exclusion by players, whether on a temporary or permanent basis, when players realize that they may have a problem.
- Ensuring that comprehensive information regarding the players' play history is made available to the players at all times, in order to allow the players to fully control their play and the money spent by them.
- Prohibiting extending or granting credit to players.
- Providing links to problem gambling help lines and websites.

While gambling addiction is indeed an issue, I believe it is best addressed through proactive regulation that seeks to mitigate the problem, rather than be left to an unregulated market that protects no one.

Geolocation

A common argument made by proponents of a federal ban on internet gambling is that states could not possibly limit the activity to people within their own states. But the truth of the matter is that states are already doing this effectively. According to the Columbia University Science and Technology Law Review, "Geolocation technologies have the potential to make internet gambling law both more effective and more efficient by enabling each state to enforce its own substantive regulations."¹¹

¹¹ *Geolocation and Federalism on the Internet: Cutting Internet Gambling's Gordian Knot*, Columbia University, Kevin F. King, 2010

New Jersey again is an excellent example of the effectiveness of geolocation. With major population centers from other states on two borders (Pennsylvania and New York), New Jersey DGE employs some of the most sophisticated technologies to ensure compliance. Using satellite-based geo-positioning technology, the DGE verifies the location of internet gamblers across New Jersey on digital maps and computer screens. Geo-positioning is so precise that it can distinguish between gamblers who are on the very edges of New Jersey's boundaries and those just across the border in another state.

Similar technologies are being employed in Nevada and Delaware. There are multiple technology companies licensed in these jurisdictions that are dedicated to developing geolocation systems that stay ahead of someone trying to thwart the system. If Michigan chooses to regulate internet gaming, it should require "best of breed" technologies to ensure the location of gamblers and limit it to those eligible to play in the state.

Money Laundering

Finally, opponents of internet gaming have claimed that the activity is vulnerable to fraud and criminality, even going as far as to say it could serve as a tool for money laundering and terrorist financing. Let me first say that prohibition will just play into the hands of the criminal element, just as it did in the 1920s when alcohol was banned. It is far better for the players' financial fate if the safety and security of internet gaming transactions are in the hands of the U.S. banking system and the responsible and regulated gaming corporations. If anything, a prohibition would

make the likelihood of money laundering or other fraudulent activity far greater because it would be forced underground without any oversight or control.

Yet, internet gaming opponents seem to ignore the facts and choose scare tactics over common sense when they suggest that iGaming could be used to fund terrorism.¹² Even the United States Congress has debunked this mythology. Just this past December a Congressional task force released a report¹³ that is the result of an exhaustive two-year investigation into possible vulnerabilities for terror financing. Not surprisingly, the 200-page report made no mention that online gambling could be used by terrorist organizations to launder money and fund plots. Nor did the task force recommend the passage of a federal online gambling ban or any other gaming laws to combat terror financing.

It is clear that under a regulated market, the opportunity for a fraudulent money laundering scheme to flourish is minimal. A study conducted by Dr. Michael Levi, professor of criminology at the Cardiff School of Social Sciences, concluded that, “compared to methods of customer identification and monitoring in the off-line gaming and financial services sector, the scope for substantial abuse of e-gaming for laundering purposes is modest.”¹⁴ The study pointed to both the ability to record and track internet gaming transactions and banking regulations to which authorized companies would be required to adhere. Further, the sophistication of identity

¹² “Unsurprisingly, Terrorists Aren’t Using Online Gambling Sites To Launder Money And Fund Plots,” *Online Poker Report*, January 6, 2017.

¹³ “Stopping Terror Finance: Securing The US Financial Sector,” Task Force to Investigate Terrorism Financing, U.S. House of Representatives, December 20, 2016.

¹⁴ Michael Levi, Ph.D., D.Sc. (Econ.) *Money Laundering Risks and e-Gaming: A European Overview and Assessment*. 2009

verification and the requirement that regulated sites implement these technologies would make it extremely difficult for someone to move money anonymously on an internet gaming site.

Studies aside, the money laundering argument still seems to resonate with some because of historic concerns about brick-and-mortar gaming and money laundering. It is true that, as a cash-intensive business, brick-and-mortar gaming has had to go to extraordinary lengths to protect against money laundering. However, internet gaming does not involve cash at all. Additionally, every deposit, every withdrawal – indeed, every bet, raise and fold – is recorded and available for review. It quite possibly would be the dumbest place a criminal would seek to launder funds.

The one instance that some alarmists point to as a particular Anti-Money Laundering (AML) vulnerability would be the instance where one player in a poker game attempts to lose money to another player intentionally as a way to launder that money as poker winnings. However, licensed sites utilize sophisticated software surveillance tools that continuously monitor play to identify unusual betting patterns. This is done in part to prevent player collusion, which is a form of cheating, but also to prevent money laundering. This is a vast oversimplification, but for example, if the software “sees” me fold my pocket kings – the second-best possible starting hand in Texas Hold’em -- to your pocket aces pre-flop, it will flag us as likely colluders and all of our play -- prior and future -- will be subject to intense scrutiny. Similarly, if it “sees” me fold my pocket aces to your deuce-seven, it will flag both of us as potential money launderers; if it continues, we will be blocked from the site and a suspicious activity report will be filed with proper authorities.

So far in my testimony, I have outlined just some of the robust technologies that are in use today to ensure the safety, security, and compliance of state regulated internet gaming. While there is much more information I can make available to the committee, the information I have provided should give you confidence that it will be done in a way that best protects the consumer.

Conclusion

In closing, I would like to reiterate that this committee is not deciding whether Michigan citizens will gamble on the internet – today, thousands of Michiganders already gamble on offshore sites that provide absolutely no local oversight or protection. However, this committee can decide whether or not to protect these consumers online. Today, internet gaming is being successfully regulated throughout the world, online casino and poker games are regulated in three states, and online lottery, fantasy sports and horse bets are successfully regulated in dozens more. The only question before this committee is, will you support S.B. 203 and provide Michigan players and taxpayers with a safe and well-regulated place to play poker and other games on the internet, or will you leave them unprotected and vulnerable to fraud?

Once again, Mr. Chairman and members of the committee, I thank you for this opportunity to testify on behalf of my members and your constituents, and I will be pleased to answer any questions you may have.